

Carbon Minerals Limited

ABN 29 001 836 586

Coal Seam Gas Pioneers of the Gunnedah Basin

www.carbonminerals.com.au

Annual Financial Report for the Year ended 31 December 2016



Santos/ACM Kahlua seam gas pilot – PEL 1 Gunnedah Basin

Carbon Minerals Limited

A.B.N. 29 001 836 586

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Corporate Directory

Directors

Marcus Paul Lincoln Smith B.A., BSc. (Hons.), MSc., PhD. (University of Sydney) Chairman

Wayne Vincent Annis-Brown LL.B., LL.M. (University of Sydney)

Steven John Danielson F.C.A., B.B.S.

Bun Kiem Lee F.C.A., B.Com. (Alternate for S.J. Danielson)

Secretaries

Steven John Danielson F.C.A., B.B.S.

Rachel Lee Thorn

Registered office

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SYDNEY NSW 2000 AUSTRALIA

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Email: admin@carbonminerals.com.au

Website: www.carbonminerals.com.au

Share registry

Mitchell & Partners

Suite 3, Level 2, 66 Clarence Street

SYDNEY NSW 2000 AUSTRALIA

Telephone: (02) 9392 8686

Email: shareregistry@mitchellpartners.com.au

Solicitors

Lincoln Smith & Co

Suite 12, 29 Bertram Street

CHATSWOOD NSW 2067 AUSTRALIA

Auditor

PricewaterhouseCoopers

One International Towers

Watermans Quay, Barangaroo

GPO Box 2650

SYDNEY NSW 2001 AUSTRALIA

Bankers

Australia and New Zealand Banking Group Limited

388 George Street

SYDNEY NSW 2000 AUSTRALIA

Securities Exchange listing

Carbon Minerals Limited shares are listed on the Australian Securities Exchange under the code CRM.

The Company is limited by shares, incorporated and domiciled in Australia.

Operating and Financial Review

Review of Operations

Gunnedah Basin Coal-Seam-Gas Project

Petroleum Exploration Licences 1 and 12, NSW (Gunnedah Basin)

These tenements are jointly held by wholly owned subsidiary, Australian Coalbed Methane Pty Ltd (ACM) and Santos QNT Pty Ltd (Santos). ACM holds a 35% interest in the tenements and Santos holds the remaining 65%. Exploration is carried out under a joint venture arrangement with Santos being the project Operator.

Throughout the reporting period field operations remained limited to care and maintenance of existing wellheads, site facilities and access tracks. Proactive safety work included pressure testing of the Georges Island wells and Leak Detection and Repair inspections of Georges Island and Kahlua wells in PEL1 and Longlea well in PEL12. No leaks were detected at any of the sites.

Statutory reporting to NSW Division of Resources and Energy and NSW EPA was undertaken by the Operator Santos.

Significant changes to NSW mining and petroleum legislation were passed in the last quarter of 2015 and came into effect in March 2016.¹ Amongst other matters the changes incorporate a range of conditions relevant to the granting or renewal of Petroleum Exploration Licences. Many conditions that were previously detailed in the specific licence documents are now covered by the legislation and common to all PELs.

As previously reported, in December 2014 an application for renewal of PEL1 was submitted to the NSW Government by the Operator and in August 2016 an application for the renewal of PEL12 was lodged. Renewal for either licence is yet to be granted and is not expected until government administrative procedures are in place to accommodate the changes in legislation.

Operator Santos has continued with a range of activities and meetings relating to government, community, media, stakeholder and environmental matters.

Financial Performance

The consolidated loss of the consolidated entity after providing for income tax amounted to \$217,677 (2015: loss \$7,238,077). The 2015 loss was primarily due to an impairment charge of \$7.142M after tax against the historical book value of the group's assets.

Financial Position

At 31 December 2016 cash was \$4,780,157 (2015: \$4,994,209) and current liabilities were \$153,968 (2015: \$132,581). The reduction in cash is chiefly due to the payment of exploration and evaluation expenditure creditors during the year.

The group has adequate cash reserves to fund its continued participation in the joint arrangement with Santos for the foreseeable future. Budgeted expenditure commitments for the year ending 31 December 2017 for ACM's 35% share are \$327,250. Please refer to Note 23 for further information on future exploration expenditure commitments.

¹ http://www.edonsw.org.au/mining_and_petroileum_legislation_amendment_package_2015

Operating and Financial Review (continued)

Business strategies and prospects

The group proposes to continue its coal seam gas exploration program through its joint arrangement with Santos. However, no indication as to likely results in the future can be given due to the uncertainties usually associated with exploration activities. Future financial performance will be driven by success of the exploration activities.

The group's planned exploration activities are currently awaiting resolution of some of the community concerns and pending finalisation of the government regulatory framework in relation to the group's activities. Based on advice received by the group from the project operator (Santos) proposed exploration activities will recommence in the near future.

Material business risks

The achievement of the group's business strategy and future financial performance is subject to risks as set out below.

Gas reserves

Estimations of recoverable gas reserves contain uncertainties intrinsic in geological data available and other factors such as operating costs and commodity prices. Long established exploration and evaluation methodology is employed by the group to minimise these risks.

Regulatory risks

The group's business is subject to laws and regulations. A change in the laws which apply to the group's business or the way it is regulated could have a material adverse impact on its operations and financial position. For example, a change in environmental laws could have a material effect on the group.

Environmental and safety risks and social licence to operate

Various health, safety and environmental risks are inherent with gas exploration activities. Environmental incidents or lack of local community support could result in disruption to the group's activities.

Directors' report

Your directors present their report on the consolidated entity consisting of Carbon Minerals Limited and the entities it controlled at the end of, or during, the year ended 31 December 2016.

The following persons were directors of Carbon Minerals Limited during the whole of the year, and up to the date of this report:

M.P. Lincoln Smith
W.V. Annis-Brown
S.J. Danielson
B.K. Lee (alternate for S.J. Danielson)

Principal activities

The principal continuing activities of the Group in the course of the year were the exploration for natural resources in the Commonwealth of Australia.

Operating and financial review

A review of operations and financial performance for the financial year is set out on pages 2 to 3.

Dividends

The directors report that during the year ended 31 December 2016 no dividends were declared or paid (2015: nil).

Other activities

The Group continues to monitor exploration opportunities both in areas of current Group activity and other regions throughout Australia.

Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the year under review, not otherwise disclosed in this report or the Group financial statements.

Likely developments and expected results of operations

The Group proposes to continue its natural resources exploration programmes.

In relation to the Group's coal seam gas exploration activities, no indication as to likely results in the future can be given due to the uncertainties usually associated with such activities. Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Matters subsequent to the end of the financial year

In the opinion of the directors there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature which, in the opinion of the directors, is likely to affect substantially the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years, apart from those events mentioned in the review of operations.

Environmental regulation

The Group's operations are subject to environmental and other regulations. The group has a policy of engaging only suitably experienced contractors and consultants to ensure compliance with environmental regulations in respect of its mineral exploration and primary production activities.

There have been no material breaches of environmental regulations during the financial year and up to the date of this report.

Directors' report (continued)

Information on Directors

Marcus Paul Lincoln Smith B.A., BSc. (Hons.), MSc., PhD. (University of Sydney). *Executive Chairman from 13 March 2013. Age 62.*

Experience and expertise

Non-executive director from his appointment on 6 December 1996 and executive director from 1 January 2010. Chairman of the Board and Chief Executive Officer since 13 March 2013. Environmental scientist for 35 years and has considerable experience in the field of environmental consulting.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chairman of the Board and Chief Executive Officer.

Interests in shares

15,144,747 ordinary shares in Carbon Minerals Limited.

Wayne Vincent Annis-Brown LL.B., LL.M. (University of Sydney). *Non-Executive Director. Age 66.*

Experience and expertise

Executive director from his appointment on 4 August 1988 and then non-executive director from 1 January 2010. Practising solicitor of the Supreme Court of New South Wales for 45 years and has considerable experience in commercial and business law.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

None.

Interests in shares

41,000 ordinary shares in Carbon Minerals Limited.

Steven John Danielson F.C.A., B.B.S. *Non-Executive Director. Age 63.*

Experience and expertise

Non-executive director since 23 June 1993. Chief Financial Officer since 13 March 2013. Chartered Accountant practising for 45 years and has considerable experience in accounting, taxation law and management practices. Mr. Danielson is also a company secretary.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

Chief Financial Officer.

Interests in shares

100 ordinary shares in Carbon Minerals Limited.

Directors' report (continued)**Information on Directors (continued)**

Bun Kiem Lee F.C.A., B.Com. (Alternate for S.J. Danielson). *Non-Executive Director.* Age 62.

Experience and expertise

Non-executive director since 5 April 2006. Chartered Accountant practising for 42 years and has considerable experience in accounting, taxation law and management practices.

Other current directorships

None.

Former directorships in last 3 years

None.

Special responsibilities

None.

Interests in shares

10,000 ordinary shares in Carbon Minerals Limited.

Company Secretaries

Steven John Danielson F.C.A., B.B.S.

Mr. Danielson was appointed to the position of company secretary on 20 September 1988. Mr. Danielson is also a non-executive director and Chief Financial Officer of the Company. Details of his qualifications and experience are shown above.

Rachel Lee Thorn

Ms. Thorn was appointed to the position of company secretary on 26 September 1994. Ms. Thorn is experienced in office management.

Meeting of Directors

The following table sets out the number of meetings of the Company's directors held during the year ended 31 December 2016, and the number of meetings attended by each director:

Director	Full meetings of directors		Meetings of non-executive directors	
	A	B	A	B
M.P. Lincoln Smith	2	2	*	*
W.V. Annis-Brown	0	2	0	0
S.J. Danielson	2	2	0	0
B.K. Lee (Alternate for S.J. Danielson)	0	2	0	0

A = Number of meetings attended

B = Number of meetings held during the time the director held office during 2016

* = Not a non-executive director

Directors' report (continued)

Remuneration Report

This report details the policy and principles that govern the remuneration of directors and executives of the Company and Group; the link between remuneration policy and principles and the Company's and Group's performance for the year and the remuneration arrangements of directors and executives.

The directors and executives who are responsible for the overall planning, directing and controlling of the activities of the Company and Group during the year are as follows:

Executive Chairman

M.P. Lincoln Smith

Chief Executive Officer

M.P. Lincoln Smith

Chief Financial Officer

S.J. Danielson

Non-Executive Directors

W.V. Annis-Brown

S.J. Danielson

B.K. Lee (alternate director for S.J. Danielson)

Remuneration policy

Objectives and principles of remuneration policy

The objective of the Company's and Group's remuneration policy and its principles is to ensure that reward is competitive and appropriate.

No element of remuneration is determined in relation to the financial performance of the Company or Group. As there is no link to financial performance there is no further discussion of the matters required by section 300A of the *Corporations Act 2001* and Part 2M of the Regulations. These sections require discussion over the current year and the previous 4 years of the link between reward and:

- earnings
- dividends
- share price movements

During the year ended 31 December 2016, the Company did not have a separate remuneration committee. Instead, the duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the entire Board.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management.

Remuneration and other terms of employment for directors are formalised within the Constitution / Articles of Association of the Company and Group entities. This outlines that remuneration to directors be limited to \$20,000 per annum with any increases to be determined only through notice at a general meeting.

Directors' report (continued)**(a) Details of remuneration (audited)**

Executive directors' and non-executive directors' remuneration and other terms of employment are reviewed periodically by the Board. The current base remuneration was last reviewed with effect from 2 July 2013. The remuneration details of executive and non-executive directors and key management personnel of the Company and the Group are set out in the table below:

Remuneration of key management personnel of the Group and the Company

2016	Short-term benefits	Post-employment benefits	Share-based payment		
Name	Directors' Base Fee \$	Super-annuation \$	Options \$	Total \$	Remuneration consisting of options %
Executive directors					
M.P. Lincoln Smith	8,000	760	-	8,760	-
Non-executive directors					
W.V. Annis-Brown	4,000	380	-	4,380	-
S.J. Danielson	-	-	-	-	-
B.K. Lee	-	-	-	-	-
Total	12,000	1,140	-	13,140	-
2015					
Executive directors					
M.P. Lincoln Smith	8,000	2,280	-	10,280	-
Non-executive directors					
W.V. Annis-Brown	4,000	570	-	4,570	-
S.J. Danielson	-	-	-	-	-
B.K. Lee	-	-	-	-	-
Total	12,000	2,850	-	14,850	-

No remuneration was payable to any officers of the Group or the Company other than the amounts disclosed above.

No bonuses or share options have been paid or issued to directors during the year (2015: nil).

No other key management personnel have been identified.

(b) Shareholdings

The numbers of shares in the Company held during the financial year by each director of Carbon Minerals Limited and other key management personnel of the Group, including their personally related entities, are set out below. Where shares are held by the individual director or executive and any entity under the joint or several control of the individual director or executive they are shown as 'beneficially held'. Shares held by those who are defined by AASB 124 *Related Party Disclosures* as close members of the family of the individual director or executive are shown as 'non-beneficially held'.

Directors' report (continued)**(b) Shareholdings (continued)**

Name	Type	Balance as at 31 December 2015	Net changes during the year	Balance as at 31 December 2016
<i>Executive directors</i>				
M.P. Lincoln Smith	Beneficially held	1,500	-	1,500
	Non-beneficially held	15,143,247	-	15,143,247
<i>Non-executive directors</i>				
W.V. Annis-Brown	Beneficially held	1,000	-	1,000
	Non-beneficially held	40,000	-	40,000
S.J. Danielson	Beneficially held	100	-	100
	Non-beneficially held	-	-	-
B.K. Lee	Beneficially held	-	-	-
	Non-beneficially held	10,000	-	10,000

(c) Loans to key management personnel

No directors of Carbon Minerals Limited or other key management personnel of the Group, including their personally related parties, held any loans with the Group or the Company during the year.

(d) Other transactions with key management personnel

Professional fees of \$88,800 (2015: \$93,700) were payable to Mitchell & Partners (Chartered Accountants), a firm of which S.J. Danielson is a consultant and B.K. Lee is a principal.

Lincoln Smith & Company (Solicitors) provides legal advice to the Group. R.P. Lincoln Smith (sibling of M.P. Lincoln Smith) is a principal of the firm and contracts the services of W.V. Annis-Brown. No fees were payable to Lincoln Smith & Company during the year ended 31 December 2016 (2015: Nil).

Terms and conditions

Transactions were made on normal commercial terms and conditions and at market rates.

Auditors

PricewaterhouseCoopers continue in office in accordance with Section 327 of the *Corporations Act 2001*.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Rounding of amounts

The company has relied on the relief provided by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest dollar in accordance with that instrument.

This report is made in accordance with a resolution of the directors.



M.P. Lincoln Smith
Director

Sydney
23 March 2017



Auditor's Independence Declaration

As lead auditor for the audit of Carbon Minerals Limited for the year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Carbon Minerals Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'M Upcroft', written over the printed name.

Marc Upcroft
Partner
PricewaterhouseCoopers

Sydney
23 March 2017

PricewaterhouseCoopers, ABN 52 780 433 757

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Corporate governance statement

The Board of Directors is responsible to the security holders for the performance of the Company and the implementation of corporate governance policies. The Company's corporate governance principles and policies are structured with reference to the ASX Corporate Governance Council's principles and recommendations, which are as follows:

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Act ethically and responsibly
4. Safeguard integrity in corporate reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Remunerate fairly and responsibly

The board supports the intent of the recommendations and recognises that given the current size and scope of the Company it is not practical to institute all of the recommendations at present. A description of the Company's main corporate governance practices is set out hereunder. Unless stated otherwise, all of the following practices were in place throughout the 2016 financial year.

1. Lay solid foundations for management and oversight

The Board's responsibilities include:

- development of strategy
- oversight of management
- risk management
- monitoring compliance with legal and regulatory obligations
- approving and monitoring major operating and capital expenditure
- approving acquisitions and disposals of projects

Management is responsible for the day to day operations and administration of the Company in accordance with the directions and policies of the Board.

The Executive Chairman is responsible for matters not specifically identified as the responsibility of the Board. The Board has also delegated to the Executive Chairman such matters as the Company's liquidity, credit policies and exposures.

Before a candidate is put forward or appointed as a director, appropriate checks regarding experience, education and integrity are carried out. All pertinent material information in the company's possession, regarding directors standing for election or re-election is provided to shareholders.

The company secretaries provide information and support the proper functioning of the Board. They are directly answerable to the Board, via the Executive Chairman.

The Company has no formal performance evaluation procedure for the Board, individual directors or senior executives. However, the Board undertakes ongoing self assessment of its performance and the performance of the Executive Chairman. The Executive Chairman monitors and appraises the performance of individual directors as measured against criterion determined by the Executive Chairman on a continuous basis. Any deficiency identified in a director's performance is addressed directly with the relevant director. Performance of the Board, Executive Chairman and the directors individually for the year ended 31 December 2016 has been evaluated in accordance with this process.

Corporate governance statement (continued)**2. Structure the board to add value**

The Board consists of an executive chairman and two non-executive directors. M.P. Lincoln Smith is the Executive Chairman and CEO. W.V. Annis-Brown and S.J. Danielson are non-executive directors. B.K. Lee is an alternate director for S.J. Danielson. None of the directors is considered to be independent.

The Board ensures that the directors have an appropriate level of industry experience and business skills to enable them to competently perform their roles. The directors' qualifications, experience and service period are set out in the Directors' Report and the mix of skills and experience of the Directors is set out in the matrix below.

Tertiary and Industry Qualifications	Specific Professional and Industry Experience
Business and commerce	Accounting and taxation
Law	Finance and investment
Science	Management and planning
	Risk assessment and management
	Legal/statutory compliance
	Environment
	Private sector and public sector directorships

Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

The Company has no nomination committee. New Directors are appointed by the Board having regard to the Company's needs from time to time. Re-election of directors takes place in accordance with the ASX Listing Rules and the Company's Constitution.

3. Act ethically and responsibly

The Company is committed to complying with all applicable laws, regulations and standards.

The Company is dedicated to protecting the environment and respecting community attitudes in all aspects of its operations. The Company ensures that adequate systems and procedures are in place to mitigate the impact the Company's activities may have on the environment and relevant stakeholders.

The board expects all directors to perform their duties in a manner which is ethical, honest and objective and at all times endeavour to maintain and improve the performance and reputation of the Company.

The Company has a Securities Trading Policy which applies to directors, employees and consultants (insiders).

4. Safeguard integrity in corporate reporting

It is the Board's responsibility to ensure the maintenance of proper accounting records and the integrity of financial information, the implementation of quality assurance practices and procedures and compliance with statutory regulations.

At regular stages the Board:

- reviews the accounting policies;
- reviews the Company's annual and half yearly financial reports;
- reviews with the external auditors the appropriateness of accounting policies;
- addresses the findings of the external auditors;
- assesses the scope, quality and cost of the external audit;

Corporate governance statement (continued)

- ensures that the auditors retain their independence and there is a periodic rotation of the audit engagement partner;
- reviews the appointment or removal of the external auditor; and
- assesses external reporting to ensure consistency with Board members information and knowledge

Prior to approval of the Company's financial statements for any financial period, the Board receives from the CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Board ensures that the external auditor attends the Company's AGM and is available to answer questions from security holders relevant to the audit.

The Company does not have an audit committee. Due to the small number of directors constituting the Board and the fact that the Board bears the ultimate responsibility for the integrity of the Company's financial reporting and the independence of the external auditor, the Board has deemed that the establishment of a separate audit committee is unnecessary.

5. Make timely and balanced disclosure

The Company aims to provide relevant and timely information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the ASX Listing Rules. The Board has procedures in place to disclose any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. The Board has delegated the function of continuous disclosure to the Chairman and the Company Secretaries. The Chairman and the Company Secretaries assess the type of information that needs to be disclosed and ensure the Company's announcements are made in a timely manner, are factual, do not omit material information and are in compliance with the ASX Listing Rules. Information which is considered to be price sensitive is approved by the Chairman before its release.

6. Respect the rights of shareholders

The Board's policy is for all investors to have equal and timely access to material information concerning the Company, including its financial position, performance, ownership and governance and aims to ensure that all security holders are informed of major developments affecting the affairs of the Company.

Information is communicated to the shareholders through the Annual Report, Half-Yearly Report, Quarterly Reports, disclosures made to the ASX and notices of meetings. The Company maintains a website on which is placed Company announcements and Financial Reports as well as the Company's corporate governance policies and biographical information for each director and senior executive. Any relevant information is available to the shareholders on request by email, facsimile or post.

Security holders are given the option of receiving an email notification about accessing the Annual Report online or to receive a printed copy of the Annual Report. All shareholders are notified of general meetings in writing by post. At the AGM the Chairman encourages questions and comments from security holders relating to the company's activities, management of the company, Annual Financial Report and Remuneration Report.

Corporate governance statement (continued)**7. Recognise and manage risk**

The Board has responsibility for ensuring that management has adopted risk and internal control processes and it acknowledges that risk management is a core principle of sound corporate governance.

The Company does not have an internal audit function and has not appointed a Risk Committee. In view of the importance of risk management and the small size of the Company, the Board believes it is appropriate for the full Board to oversee risk. The Board has delegated responsibility for designing and implementing the risk management and internal control systems to manage the Company's material risks to the CEO.

The Company's established policies for overseeing its risk management framework are summarised below:

- Review the reliability and integrity of financial and operating information and the processes used to identify, measure, classify and report such information
- Examine and evaluate the adequacy of internal control systems
- Ensure compliance with relevant laws, regulations and standards
- Formulate and regularly review programmes for exploration and development
- Manage financial risk
- Oversee of the conduct of contractors
- Assess the probability and potential impact of identified risks
- Develop actions to eliminate, diminish or deal with the potential consequences of identified risks

Annually the Board reviews the effectiveness of the Company's risk management framework and internal control processes to satisfy itself that it continues to be sound and to consider whether improvements or modifications should be made. A review has been conducted in relation to the year ended 31 December 2016.

The Company's activities expose it to material economic, environmental and social sustainability risks. Any identified risks are regularly monitored and action to mitigate those risks is initiated as appropriate. Highly qualified external consultants are engaged as required to review economic, environmental and social sustainability issues and assist in the development of protocols to mitigate risk.

8. Remunerate fairly and responsibly

The Company determines by resolution the total remuneration to be paid to the directors, and the directors determine how the total remuneration is divided among them. The total determined directors' remuneration is \$20,000 per annum. The Company must not increase the total amount of directors' remuneration payable by it without the approval of security holders by ordinary resolution at a general meeting.

There is no distinction between the structure of non-executive directors' remuneration and that of executives. The Board considers this method appropriate at this stage of the Company's development. Directors receive a fixed amount of remuneration by way of cash fees and superannuation contributions. Remuneration levels are reflective of the time commitment and responsibilities of the directors' roles and are relative to the scale of the Company's operations.

The Company does not have a remuneration committee. Due to the small number of directors constituting the Board and the fact that ultimate responsibility for the Company's remuneration policy rests with the full Board, the establishment of a separate remuneration committee is deemed unwarranted.

Further information on directors' remuneration is set out in the Directors' Report at pages 7-9.

Corporate governance statement (continued)

The Company has followed each of the ASX Corporate Governance Council recommendations in full for the whole of the reporting period, except in relation to the recommendations set out below:

	RECOMMENDATION	EXPLANATION FOR DEPARTURE
1.	Lay solid foundations for management and oversight	
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Written agreements setting out the terms of directors' appointments are considered unnecessary due to the long standing professional associations that exist between the current directors.
1.5	<p>A listed entity should:</p> <ul style="list-style-type: none"> (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: <ul style="list-style-type: none"> (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. 	The Company does not have a diversity policy. Due to the current size of the Company's operations the Board considers it to be impractical to establish a gender diversity policy with meaningful measurable objectives.
2.	Structure the Board to add value	
2.4	A majority of the board of a listed entity should be independent directors.	The Board is of the opinion that the Company is best served by its current board composition and does not consider that the current stage of development of the Company justifies the cost of increasing the number of directors.
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	The Board supports the combined role of Chairman and CEO and does not consider that the present size of operations of the Company justifies the cost of increasing the number of directors.

Corporate governance statement (continued)

	RECOMMENDATION	EXPLANATION FOR DEPARTURE
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	The Board believes that the current directors already possess the necessary skills, knowledge and experience to effectively and competently perform their duties within the scope of the Company's operations. However, as the Company develops, the Board will continue to monitor and assess the benefit of introducing such programs and professional development opportunities.
3.	Act ethically and responsibly	
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	A code of conduct has not been formally established due to the small number of directors constituting the Board and the fact that Board changes are infrequent. The Chairman consistently and continuously ensures that all members of the Board have a clear understanding of their duties, responsibilities and their accountability to the Company and its shareholders for their conduct.
5.	Make timely and balanced disclosure	
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	The Board considers that it is unnecessary to establish a written policy designed to ensure compliance as it has delegated the function of continuous disclosure as required under the ASX Listing Rule to the Chairman and the Company Secretaries.
6.	Respect the rights of security holders	
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Due to the size of the Company's operations and its current stage of development the Board deems the cost of designing and implementing an investor relations program to facilitate effective two-way communication with investors to be unwarranted.
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Due to the size of the Company's operations and its current stage of development the Board deems the cost of establishing an electronic communication facility to/from the security registry to be unjustifiable.

The corporate governance statement is current as at 23 March 2017 and has been approved by the board of directors.

**Consolidated statement of comprehensive income
for the year ended 31 December 2016**

	Notes	2016 \$	2015 \$
Revenue from continuing operations	5	138,831	131,383
Impairment of non-current assets	6	(152,053)	(7,142,265)
Exploration related expenses		(5,523)	(10,414)
Administration expenses	7	(196,721)	(214,650)
Other expenses		(2,211)	(2,131)
Loss before income tax		(217,677)	(7,238,077)
Income tax benefit	8	-	-
Loss from continuing operations		(217,677)	(7,238,077)
Loss for the year		(217,677)	(7,238,077)
Total comprehensive loss for the year		(217,677)	(7,238,077)
Loss is attributable to:			
Owners of Carbon Minerals Limited		(217,677)	(7,238,077)
Total comprehensive loss for the year is attributable to:			
Owners of Carbon Minerals Limited		(217,677)	(7,238,077)
		Cents	Cents
Loss per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic and diluted loss per share	22	(1.16)	(38)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**Consolidated statement of financial position
as at 31 December 2016**

	Notes	2016 \$	2015 \$
ASSETS			
Current Assets			
Cash and cash equivalents	9	4,780,157	4,994,209
Receivables	10	31,776	14,014
Term deposits	11	75,000	75,000
Total Current Assets		4,886,933	5,083,223
Non-Current Assets			
Property, plant and equipment	12	736,080	736,080
Exploration and evaluation expenditure	13	-	-
Total Non-Current Assets		736,080	736,080
Total Assets		5,623,013	5,819,303
LIABILITIES			
Current Liabilities			
Borrowings	14	-	4
Payables	15	153,968	132,577
Total Current Liabilities		153,968	132,581
Total Liabilities		153,968	132,581
Net Assets		5,469,045	5,686,722
EQUITY			
Contributed equity	16	8,433,899	8,433,899
Accumulated losses	17	(2,964,854)	(2,747,177)
Parent entity interest		5,469,045	5,686,722
Total Equity		5,469,045	5,686,722

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**Consolidated statement of changes in equity
for the year ended 31 December 2016**

	Attributable to owners of Carbon Minerals Limited		
	Contributed equity \$	Retained earnings/ (Accumulated losses) \$	Total equity \$
Balance at 1 January 2015	8,433,899	4,490,900	12,924,799
Loss for the year	-	(7,238,077)	(7,238,077)
Other comprehensive income for the year	-	-	-
Total comprehensive loss for the year	-	(7,238,077)	(7,238,077)
Balance at 31 December 2015	8,433,899	(2,747,177)	5,686,722
Loss for the year	-	(217,677)	(217,677)
Other comprehensive income for the year	-	-	-
Total comprehensive loss for the year	-	(217,677)	(217,677)
Balance at 31 December 2016	8,433,899	(2,964,854)	5,469,045

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**Consolidated statement of cash flows
for the year ended 31 December 2016**

	Notes	2016 \$	2015 \$
Cash flows from operating activities			
Interest received		119,249	148,781
Receipts from customers (inclusive of goods and services tax)		20,134	22,429
Payments			
- to suppliers and employees (inclusive of goods and services tax)		(195,855)	(219,255)
- for exploration expenditure (inclusive of goods and services tax)		(157,576)	(428,248)
Net cash outflow from operating activities	21	(214,048)	(476,293)
Net decrease in cash and cash equivalents		(214,048)	(476,293)
Cash and cash equivalents at the beginning of the year		4,994,205	5,470,498
Cash and cash equivalents at the end of the year	9	4,780,157	4,994,205

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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Notes to the financial statements**31 December 2016****Note 1: Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Carbon Minerals Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

(i) Compliance with IFRS

The consolidated financial statements of the Carbon Minerals Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the group

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016:

- AASB 1057 *Application of Australian Accounting Standards (as amended by AASB 2015-9)*

The adoption of this amendment did not have any impact on the current period or any prior period and is not likely to affect future periods.

As this amendment merely reduces Australian-specific wording in accounting standards that incorporate the text of International Financial Reporting Standards (IFRSs), it does not affect the group's accounting policies or any of the disclosures.

(iv) New standards and interpretations not yet adopted

The Group has not elected to apply any pronouncements before their effective date for the annual reporting period ended 31 December 2016. A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017, and have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below:

AASB 9 *Financial Instruments* (applicable for annual reporting periods beginning on or after 1 January 2018)

AASB 9 as issued replaces AASB 139 and includes a logical model for classification, measurement and derecognition of financial assets, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The main changes to the classification and measurement of financial assets and liabilities are:

Notes to the financial statements
31 December 2016 (continued)**Note 1: Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)**

- Financial assets that are debt instruments will be classified based on: (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows;
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases; and
- Where the fair value option is used for financial liabilities the change attributable to changes in credit risk is presented in other comprehensive income, and the remaining change is presented in profit or loss.

AASB 15 *Revenue from Contracts with Customers* (applicable for annual reporting periods beginning on or after 1 January 2018)

AASB 15 as issued replaces AASB 111, AASB 118 and related IFRIC Interpretations. The core principle of AASB 15 is that an entity recognises revenue in accordance with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

There are no upcoming new or revised Standards and Interpretations which are expected to have a material impact on the Group.

(v) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(vi) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Notes to the financial statements
31 December 2016 (continued)**Note 1: Summary of significant accounting policies (continued)****(b) Principles of consolidation***(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Carbon Minerals Limited (“Company” or “parent entity”) as at 31 December 2016 and the results of all subsidiaries for the year then ended. Carbon Minerals Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(f)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Interest income

Interest income is recognised on an accrual basis using the effective interest method.

(ii) Technical and administration fees received

Technical and administration fees received are recognised on an accruals basis.

(iii) Access compensation received

Access compensation received is recognised when received.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period’s taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Notes to the financial statements
31 December 2016 (continued)**Note 1: Summary of significant accounting policies (continued)****(e) Income tax (continued)**

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Tax consolidation legislation

Carbon Minerals Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Carbon Minerals Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Carbon Minerals Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(f) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Notes to the financial statements
31 December 2016 (continued)**Note 1: Summary of significant accounting policies (continued)****(g) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) Receivables

Trade receivables are recognised initially at fair value less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(i) Investments and other financial assets

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (refer to note 10).

(j) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(n)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

Notes to the financial statements
31 December 2016 (continued)**Note 1: Summary of significant accounting policies (continued)****(k) Direct participating interest in an asset**

The Group has determined that its interest in the arrangement with Santos QNT Pty Limited in respect of jointly held petroleum exploration licences represents a direct participation interest in an asset. Accordingly, the Group recognises its share of costs in the arrangement as part of capitalised exploration and evaluation expenditure.

(l) Exploration and evaluation expenditure

Exploration and evaluation expenditure is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

For each area of interest, all exploration and evaluation expenditure is expensed as incurred unless:

- the exploration and evaluation expenditures are expected to be recouped through successful development and commercial exploitation of the area of interest, or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. The directors review the carrying amount for impairment annually.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the financial statements
31 December 2016 (continued)**Note 1: Summary of significant accounting policies (continued)****(o) Provisions**

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(p) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(q) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(r) Earnings per share**(i) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes to the financial statements
31 December 2016 (continued)**Note 1: Summary of significant accounting policies (continued)****(s) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(t) Parent entity financial information

The financial information for the parent entity, Carbon Minerals Limited, disclosed in note 26 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

AASB127(43)(c) Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Carbon Minerals Limited.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

Note 2: Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk, liquidity risk and price risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Board and the financial risks faced by the Group are considered minimal at this stage.

(a) Market risk

The Group's and parent's main interest rate risk arises from cash and cash equivalents and deposits with banks. The Group and parent are not exposed to currency risk.

Group and parent entity sensitivity

At 31 December 2016, if interest rates had changed by -/+ 100 basis points from the year-end rates with all other variables held constant, post-tax loss for the year would have been \$47,802 higher/lower (2015 – change of 100 bps: \$49,942 higher/lower), as a result of higher/lower interest income from cash and cash equivalents and deposits with banks.

Notes to the financial statements
31 December 2016 (continued)

Note 2: Financial risk management (continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(c) Liquidity risk

The Group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash to fund operations. Surplus funds are generally only invested in short term deposits with Australian Banks.

The Group does not have any borrowing facilities in place at the reporting date.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2016	Less than 6 months \$	6 – 12 months \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total contractual cash flows \$	Carrying amount (assets) / liabilities \$
Non-derivatives							
Non-interest bearing	153,968	-	-	-	-	153,968	153,968
Interest bearing	-	-	-	-	-	-	-
Total non-derivatives	153,968	-	-	-	-	153,968	153,968

At 31 December 2015	Less than 6 months \$	6 – 12 months \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total contractual cash flows \$	Carrying amount (assets) / liabilities \$
Non-derivatives							
Non-interest bearing	132,577	-	-	-	-	132,577	132,577
Interest bearing	4	-	-	-	-	4	4
Total non-derivatives	132,581	-	-	-	-	132,581	132,581

Notes to the financial statements
31 December 2016 (continued)**Note 2: Financial risk management (continued)****(d) Capital risk management**

The Group manage their capital to ensure the Group will be able to continue as a going concern while maximising the return to stakeholders. The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings.

The Group operates through subsidiary companies in Australia. None of the Group's subsidiaries are subject to externally imposed capital requirements.

The Group's cash flows are used for exploration and development of the mineral interests, and to fund corporate costs of the Company.

(e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values due to their short-term nature.

Note 3: Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

Exploration and evaluation expenditure

Certain exploration and evaluation expenditure is capitalised where it is considered likely that the expenditure will be recovered by future exploitation or sale, or where activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves. This process necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether economically viable extraction operations can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy it is concluded unlikely that the expenditure will be recovered by future exploitation or sale, the relevant amount capitalised is written off to the income statement. The Group's accounting policy for exploration and evaluation is set out in Note 1 (l).

Carried forward exploration and evaluation expenditures are disclosed in note 13 and relate primarily to capitalised exploration and evaluation costs from activities in the Gunnedah Basin.

Notes to the financial statements
31 December 2016 (continued)
Note 4: Financial reporting by segments

The Group operates as a natural resources explorer and a primary producer in one geographical location, being Australia.

2016	Natural resources exploration \$	Primary production \$	Total continuing operations \$	Consolidated \$
Total segment revenue	138,831	-	138,831	138,831
Consolidated revenue			138,831	138,831
Segment result	(216,642)	(1,035)	(217,677)	(217,677)
Loss before income tax			(217,677)	(217,677)
Segment assets and liabilities				
Segment assets	5,254,692	368,321	5,623,013	5,623,013
Segment liabilities	153,968	-	153,968	153,968
2015				
Total segment revenue	131,383	-	131,383	131,383
Consolidated revenue			131,383	131,383
Segment result	(7,237,082)	(995)	(7,238,077)	(7,238,077)
Loss before income tax			(7,238,077)	(7,238,077)
Segment assets and liabilities				
Segment assets	5,450,982	368,321	5,819,303	5,819,303
Segment liabilities	132,581	-	132,383	132,383

Note 5: Revenue

	2016 \$	2015 \$
From continuing operations		
Interest received – non related corporations	137,822	131,383
Access compensation received	1,000	-
Sundry income	9	-
	138,831	131,383

Note 6: Impairment Expense

Non-current assets		
Exploration and evaluation expenditure	152,053	7,142,265
Total impairment losses	152,053	7,142,265

The impairment charge of \$152,053 (2015:\$7,142,265) noted above primarily results from the ongoing low prices for oil/gas.

Notes to the financial statements
31 December 2016 (continued)

Note 7: Administration expenses

	2016	2015
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Administration expenses</i>		
Secretarial fees	88,800	93,700
Share registry and listing fees	29,416	29,165
Audit fees	45,691	55,750
Other fees	20,972	23,625
Other expenses including bank charges	11,842	12,410
	196,721	214,650

Note 8: Income tax benefit

(a) Income tax benefit

Current tax	-	-
Income tax is attributable to:		
Profit from continuing operations	-	-
Recoupment of current year tax losses	-	-
	-	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from operations before income tax expense	(217,677)	(7,238,077)
Tax at the Australian tax rate of 30% (2015: 30%)	(65,303)	(2,171,423)
Tax effect of amounts which are not tax deductible in calculating taxable income:		
Impairment losses	45,616	2,142,679
Deferred tax assets not brought to account	19,687	28,744
Income tax benefit	-	-

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	(6,847,127)	(6,600,437)
Potential tax benefit @ 30%	2,054,138	1,980,131

No deferred tax asset has been recognised as the benefit for tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

Notes to the financial statements
31 December 2016 (continued)

Note 9: Current assets – cash and cash equivalents

	2016 \$	2015 \$
Cash at bank and on hand	160,823	289,092
Deposits at call	4,619,334	4,705,117
	<u>4,780,157</u>	<u>4,994,209</u>

(a) Reconciliation to cash at end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the consolidated statement of cash flows as follows:

Balances as above	4,780,157	4,994,209
Bank overdraft (note 14)	-	(4)
	<u>4,780,157</u>	<u>4,994,205</u>

(b) Cash at bank and on hand

Cash at bank balances are subject to interest at variable rates and the average rate for the year was 1.24% (2015: 2.47%).

(c) Deposits at call

Deposits at call are subject to interest at fixed rates and the average interest rate for the year was 2.85% (2015: 2.85%). These deposits have a maturity of 3 months.

Note 10: Current assets – receivables

Interest receivable	24,174	5,601
Other receivables	7,321	8,132
Refundable deposit	281	281
	<u>31,776</u>	<u>14,014</u>

(a) Impaired receivables

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There were no impaired receivables for the Group and there were no receivables past due for the Group.

(b) Interest rate risk

Information about the Group's and the parent entity's exposure to interest rate risk in relation to receivables is provided in note 2.

Notes to the financial statements
31 December 2016 (continued)

Note 10: Current assets – receivables (continued)

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair values.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's receivables.

Note 11: Current assets – term deposits

	2016	2015
	\$	\$
Term deposits held as security for bank guarantees (note 21)	75,000	75,000

Term deposits are subject to interest at fixed rates and the average interest rate for the year was 2.77% (2015: 2.46%).

Note 12: Non-current assets – property, plant and equipment

Freehold Land		
Opening net book amount	736,080	736,080
Additions	-	-
Disposal	-	-
Closing net book amount	736,080	736,080
Cost	736,080	736,080
Accumulated depreciation	-	-
Net book amount	736,080	736,080

Note 13: Non-current assets – exploration and evaluation expenditure

Cost brought forward	7,142,265	6,725,311
Expenditure incurred during the year	152,053	416,954
	7,294,318	7,142,265
Less impairment	(7,294,318)	(7,142,265)
Net exploration and evaluation expenditure carried forward	-	-

Notes to the financial statements
31 December 2016 (continued)

Note 13: Non-current assets – exploration and evaluation expenditure (continued)

The above amounts represent costs of areas of interest carried forward as an asset and the group's share of costs under the arrangement with Santos QNT Pty Limited in accordance with the accounting policy set out in note 1(m). The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and commercial exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

The carrying amounts of the Group's exploration and evaluation assets are reviewed at each reporting date to determine whether there is any indication of impairment. The impairment charge of \$7.294M noted above primarily results from the ongoing low prices for oil/gas. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made. The recoverable amount of the Group's exploration and evaluation assets are based on its fair value less costs of disposal. The recoverable amount of the Group's exploration and evaluation assets is nil.

Note 14: Current liabilities – borrowings

	2016 \$	2015 \$
Bank overdraft	-	4

Note 15: Current liabilities – payables

Trade payables	82,296	60,300
Other payables and accruals	71,672	72,277
	153,968	132,577

Note 16: Contributed equity

(a) Share Capital

5 ordinary shares of \$0.50 each, fully paid,
issued as subscriber shares
18,803,493 ordinary shares of \$0.50 each
fully paid

3	3
8,433,896	8,433,896
8,433,899	8,433,899

(b) Movements in share capital

Date	Details	Number of Shares	\$
1 January 2015	Opening balance	18,803,498	8,433,899
31 December 2016	Balance	18,803,498	8,433,899

Notes to the financial statements
31 December 2016 (continued)

Note 16: Contributed equity (continued)

(c) Ordinary shares

At 31 December 2016 there were 18,803,498 fully paid ordinary shares.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Note 17: (Accumulated losses)/Retained earnings

	2016	2015
	\$	\$
Movements in accumulated losses were as follows:		
Balance 1 January	(2,747,177)	4,490,900
Net loss for the year	(217,677)	(7,238,077)
Balance 31 December	<u>(2,964,854)</u>	<u>(2,747,177)</u>

Note 18: Remuneration of auditors

Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:

Auditors of parent entity

- Parent entity	45,691	55,750
- Controlled entities	-	-
Total remuneration for audit services	<u>45,691</u>	<u>55,750</u>

Note 19: Related party transactions

(a) Controlling entity

The Company's ultimate controlling entity is Malewi Investments Pty Limited, incorporated in New South Wales, which owns 57.28% of Carbon Minerals Limited through interposed entities.

(b) Subsidiaries

Interests in subsidiaries are set out in note 24.

(c) Key management personnel compensation

Short-term employee benefits	12,000	12,000
Post-employment benefits	1,140	2,850
	<u>13,140</u>	<u>14,850</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 7 to 9.

(d) Loans to key management personnel

No directors of Carbon Minerals Limited or other key management personnel of the Group, including their personally related parties, held any loans with the Group or the Company during the year.

Notes to the financial statements
31 December 2016 (continued)

Note 19: Related party transactions (continued)

(e) Other transactions with key management personnel

Professional fees of \$88,800 (2015: \$93,700) were payable to Mitchell & Partners (Chartered Accountants), a firm of which S.J. Danielson is a consultant and B.K. Lee is a principal.

Lincoln Smith & Company (Solicitors) provides legal advice to the Group. R.P. Lincoln Smith (sibling of M.P. Lincoln Smith) is a principal of the firm and contracts the services of W.V. Annis-Brown. No fees were payable to Lincoln Smith & Company during the year ended 31 December 2016 (2015: Nil).

Note 20: Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

Secured guarantees exist in respect of mining tenements with the NSW Department of Trade and Investment. These guarantees comprise deposits held with financial institutions (note 11) on behalf of:

	2016 \$	2015 \$
Guarantees		
Australian Coalbed Methane Pty Limited	75,000	75,000

Note 21: Reconciliation of loss after income tax to net cash outflow from operating activities

Loss after income tax	(217,677)	(7,238,077)
Add non-cash items:		
Net impairment loss	(152,053)	(7,142,265)
Change in operating assets and liabilities:		
Increase in exploration and evaluation expenditure	(152,053)	(416,954)
(Increase)/decrease in interest receivable	(18,573)	17,398
Decrease in trade receivables	-	-
Decrease in other receivables	811	1,912
Decrease in prepayments	-	-
Increase in trade payables	21,996	20,534
Decrease in other payables and accruals	(605)	(3,371)
Net cash outflow from operating activities	(214,048)	(476,293)

Note 22: Earnings per share

Basic earnings per share	(0.0116)	(0.3849)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	18,803,498	18,803,498

(a) Reconciliation of earnings used in calculating earnings per share

Loss attributable to members of Carbon Minerals Limited	(217,677)	(7,238,077)
Loss attributable to minority interests	-	-
Loss attributable to ordinary equity holders of the Company used in calculating basic earnings per share	(217,677)	(7,238,077)

Diluted earnings per share are the same as basic earnings per share.

Notes to the financial statements
31 December 2016 (continued)

Note 23: Commitments for expenditure

Exploration Expenditure Commitments

In order to maintain current rights to tenure to exploration tenements PELs 1 and 12, the consolidated entity is required to carry out exploration activities under an agreed work program. These tenements are subject to a joint arrangement agreement between Australian Coalbed Methane Pty Limited (ACM), a wholly-owned subsidiary of Carbon Minerals Limited, and Santos QNT Pty Limited (Santos). Under the terms of the agreement ACM is required to meet total work program expenditure of \$13M. These obligations are not provided for in the financial statements and are payable as follows:

	2016	2015
	\$	\$
Within one year	327,250	341,250
Later than one year but not later than 5 years	3,878,406	3,994,463
	4,205,656	4,335,713

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

Note 24: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of Incorporation	Class of Shares	Equity Holding*	
			2016	2015
			%	%
Linger & Die Gold Pty Limited	Australia	Ordinary	100	100
Australian Coalbed Methane Pty Limited	Australia	Ordinary	100	100
Websters Find Gold Pty Limited	Australia	Ordinary	100	100

* The proportion of ownership interest is equal to the proportion of voting power held.

Notes to the financial statements
31 December 2016 (continued)

Note 25: Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2016 \$	2015 \$
Balance Sheet		
Current Assets	4,886,373	5,083,223
Total Assets	5,622,453	5,819,303
Current Liabilities	71,672	72,281
Total Liabilities	1,110,459	1,252,808
<i>Shareholders' equity</i>		
Issued capital	8,433,899	8,433,899
Accumulated losses	(3,921,905)	(3,867,404)
	<u>4,511,994</u>	<u>4,566,495</u>
(Loss)/profit for the year	<u>(54,501)</u>	<u>(75,648)</u>
Total comprehensive income	<u>(54,501)</u>	<u>(75,648)</u>

(b) Contingent liabilities of the parent entity

The parent entity has secured guarantees with the Department of Industry & Investment in respect of mining tenements of subsidiaries. These guarantees comprise deposits held with financial institutions as described in note 20.

Note 26: Rounding of amounts

The company has relied on the relief provided by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest dollar in accordance with that instrument.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 17 to 40 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



M.P. Lincoln Smith
Director

Sydney
23 March 2017



Independent auditor's report

To the members of Carbon Minerals Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Carbon Minerals Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the consolidated statement of financial position as at 31 December 2016
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

For the purpose of our audit we used overall Group materiality of \$56,233, which represents approximately 1% of the Group's total assets.

We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

We chose Group total assets because, in our view, it is an appropriate measure for a Group that conducts oil and gas exploration and development activities. The Group does not currently have revenue from producing assets, meaning profit and revenue based thresholds are less relevant.

We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on areas where the directors made subjective judgements, for example, assumptions relating to the cash flow requirements of the Group over the next 12 months.
- The Group's accounting processes are performed by a finance function in Sydney, which is where we predominately performed our audit procedures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. We communicated the key audit matters to the directors. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
------------------	--

Cash and cash equivalents

(Refer to note 9) [\$4,780,157]

Cash and cash equivalents, as a percentage of the total assets is 85% at 31 December 2016. Given the size of the balance and the importance of the capital structure for continued operation and growth, the existence of the Group's cash and cash equivalents is considered a key audit matter.

We obtained confirmations directly from the Group's banks to confirm all cash and cash equivalents at year end.

We evaluated whether the disclosures were consistent with the requirements of the Australian Accounting Standards.

Funding for further exploration activities

We focused on this area as the Group is in the exploration and development phase and therefore relies on sufficient funding to continue as a going concern.

Assessing the going concern assumption used by the Group in preparing the financial report was a key audit matter due to its importance to the financial report and the level of judgement involved.

The Group currently has no significant cash-generating assets in operation, there is a finite cash resource to fund ongoing activities. Therefore, whether there are sufficient cash resources in place to allow the Group to continue as a going concern was considered a key audit matter.

In assessing the appropriateness of the going concern assumption used in preparing the financial statements, we:

- evaluated the Group's assessment of their ability to continue as a going concern, including testing the key underlying data and assumptions of the cash flow requirements of the Group over the next 12 months based on budgets;

- obtained an understanding of the forecast expenditure and the amount which is committed expenditure, what could be considered discretionary;

- considered the liquidity of existing assets on the balance sheet;

- enquired of management and directors as to their knowledge of events or conditions beyond the current year that may cast significant doubt on the Group's ability to continue as a going concern.

- evaluated the adequacy of the disclosures made in the financial report, including the basis for the directors' conclusion that the Group is a going concern.



Other information

The directors are responsible for the other information. The other information comprises the Director's Report, Corporate Governance Statement, Shareholder Information included in the Group's annual report for the year ended 31 December 2016 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages x to x of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of Carbon Minerals Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.


PricewaterhouseCoopers


Mark Upcroft
Partner

Sydney
23 March 2017

Shareholder information

The shareholder information set out below was applicable as at 10 March 2017.

1. Substantial Shareholders

The names of the substantial shareholders and the number of shares in which they have an interest, as disclosed in substantial holding notices given to the company are as follows:

Lincoln Smith Family: 15,195,997 fully paid ordinary shares

John Barry: 1,501,815 fully paid ordinary shares

2. Voting Rights

The voting rights attaching to the shares are, on a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

3. On-Market Buy-Back

There is no current on-market buy-back.

4. Distribution of Shareholders

Analysis of numbers of shareholders by size of holding:

Number of Shares	Number of Shareholders
1 - 1,000	367
1,001 - 5,000	119
5,001 - 10,000	31
10,001 - 100,000	48
100,001 and over	9
	<hr/>
	574
	<hr/>

(i) There were 486 holders of less than a marketable parcel of shares.

5. Twenty Largest Shareholders

The names of the twenty largest holders of shares are listed below:

Name of Shareholder:	Number Held:	Percentage of Issued Shares:
1. Magnum Resources Pty Limited	10,756,700	57.21
2. Scylla Pty Limited <No. 2 Settlement A/C>	1,554,300	8.27
3. Pada Pty Limited as trustee for the L S Unit Trust	1,495,000	7.95
4. Imaj Pty Limited < Super Fund A/C >	1,135,000	6.04
5. Pali Pty Limited	720,000	3.83
6. Scylla Pty Limited <Scylla Superannuation Fund>	555,555	2.95
7. Probex Pty Limited	345,415	1.84
8. Altex Holdings Pty Limited	156,000	0.83
9. Platigraf Pty Limited < Platigraf Super Fund A/C >	140,000	0.74
10. Ms. Yifan Xie	80,000	0.43
11. Yellow 88 Pty Limited < Barry Super Fund A/C >	65,000	0.35
12. Bruce William Fleeting & Deidre Rosemary Fleeting	63,775	0.34
13. Mr. John Joseph Ruddy & Ms Elizabeth Jane Steel	58,000	0.31
14. Mrs. Dawn Roslyn Lincoln Smith	51,050	0.27
15. Mr. Maxwell Lory Smith	50,000	0.27
16. Mr. Rong Zheng	46,612	0.25
17. Ina Barry Pty Limited <Ina Barry Super Fund A/C>	45,000	0.24
18. Mr. Ianaki Semerdziev	43,200	0.23
19. Howarth Super Pty Limited <Howarth Super Fund A/C>	40,000	0.21
20. Nefco Nominees Pty Limited	40,000	0.21
	17,440,607	92.77

6. Schedule of Tenements

Location	Tenement	Holder	Interest	Area	Current to
New South Wales:					
Gunnedah	PEL 1	ACM	35% ¹	72 blocks	10/02/2015 ²
Bando	PEL 12	ACM	35% ¹	31 blocks	26/09/2016 ²

Key to Tenement Types

PEL Petroleum Exploration Licence

Key to Tenement Holders

ACM Australian Coalbed Methane Pty Limited

Notes

1. PELs 1 and 12 are subject to a joint arrangement with Santos QNT Pty Ltd (Santos). Santos has a 65% interest in the tenements.

2. Renewal application submitted